

# Dealing with problems of the welfare state.

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# Structure

- > What is the welfare state?
- > Historical roots of the welfare state
- > Types of the welfare state
- > The welfare state as solver and generator of problems
- > Two main challenges of the welfare state: demographic aging and modernization of the welfare state

# What is the welfare state?

- > Welfare states corresponds to 'social security system' or 'social policy'
- > The welfare state covers risks of modern industrial and post-industrial societies:
  - Getting older.
  - Getting sick.
  - Losing a job.
  - Becoming invalid.
    - Four big historical insurances
  - In addition: Motherhood, family protection, becoming an frail elderly, death of bread winner
  - In a broader sense: also housing, education, employment policy

# What is the welfare state?

- > This coverage of risks of industrial society – risks of loss of income – is the core of the ‘old’ welfare state.
- > However, post-industrial societies have new types of risks:
  - Female workers: reconciling work and family; in particular if female workers have invested in their education
    - Old pattern: male breadwinner plus wife with little/no qualification working until they get a child
    - New pattern: highly qualified female worker who wants to have a career and a family
  - Caring for frail elderly
    - Old pattern: male partner is employed, female partner cares first for children and then for frail elderly
    - New pattern: male and female partner (highly) qualified and employed: who cares for the frail elderly?

# What is the welfare state?

- > However, post-industrial societies have new types of risks:
  - Migrant worker/workers with little qualification in a knowledge economy:
    - Old pattern: Jobs with little qualification and wage
    - New pattern: Less jobs for less qualified workers -> structural unemployment or additional qualification/education
  - Persons with a psychological or physical handicap in a knowledge economy:
    - Old pattern: Jobs with little qualification and wage
    - New pattern: Working on the handicap/jobs which are suited for the handicapped (protected employment)
  - Lack of education means lack of chances for a decent life:
    - The prominent role of education as a means of welfare to work.

# Historical roots of the Western welfare state

- > Three different views on the origin of the Western welfare state (and all three are correct –provided pre-conditions are given)

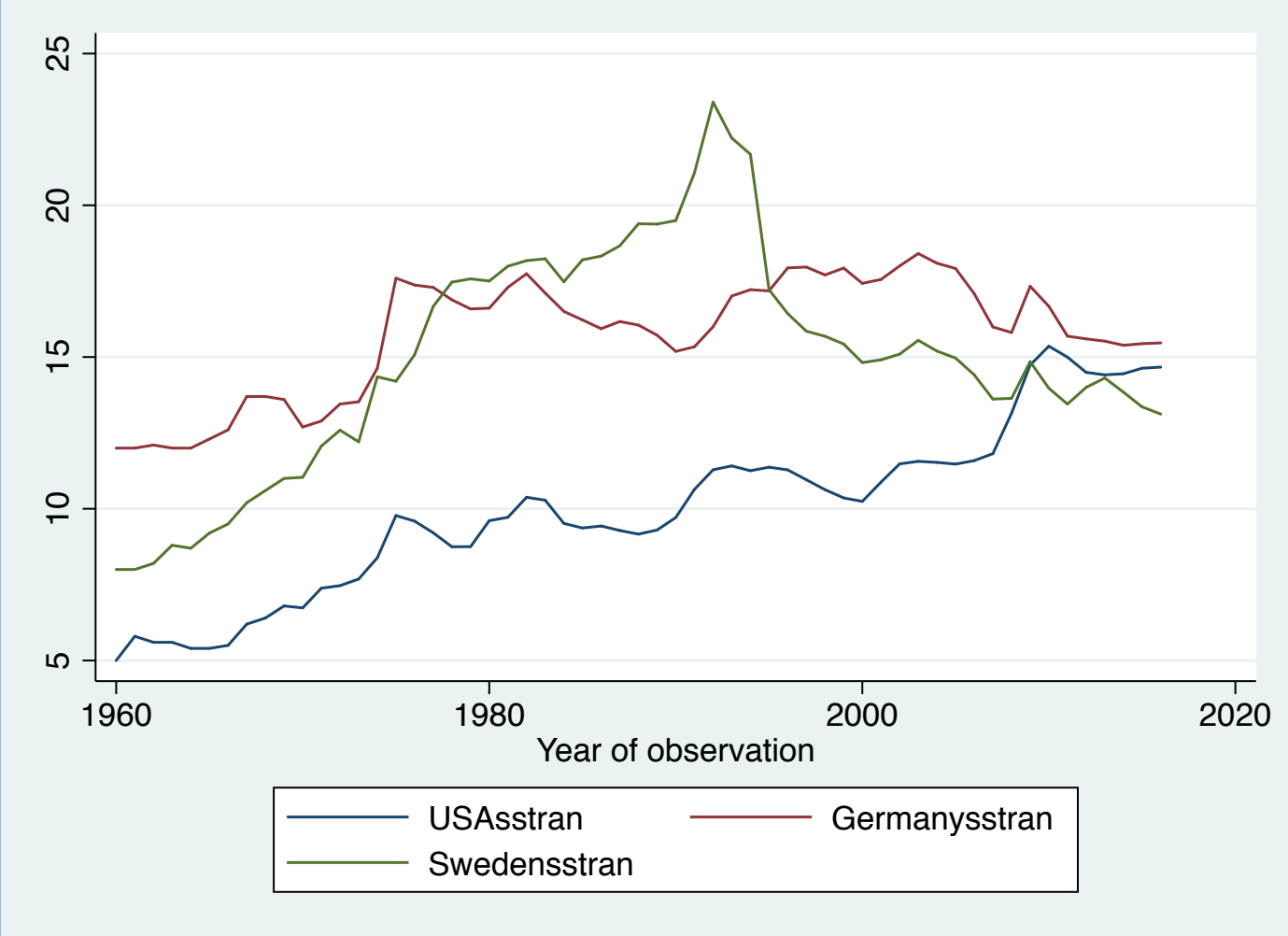
## View # 1 A functionalist approach:

The welfare state reflects functional requirements: Modern societies need a welfare state which substitutes the social security networks of pre-industrial societies.

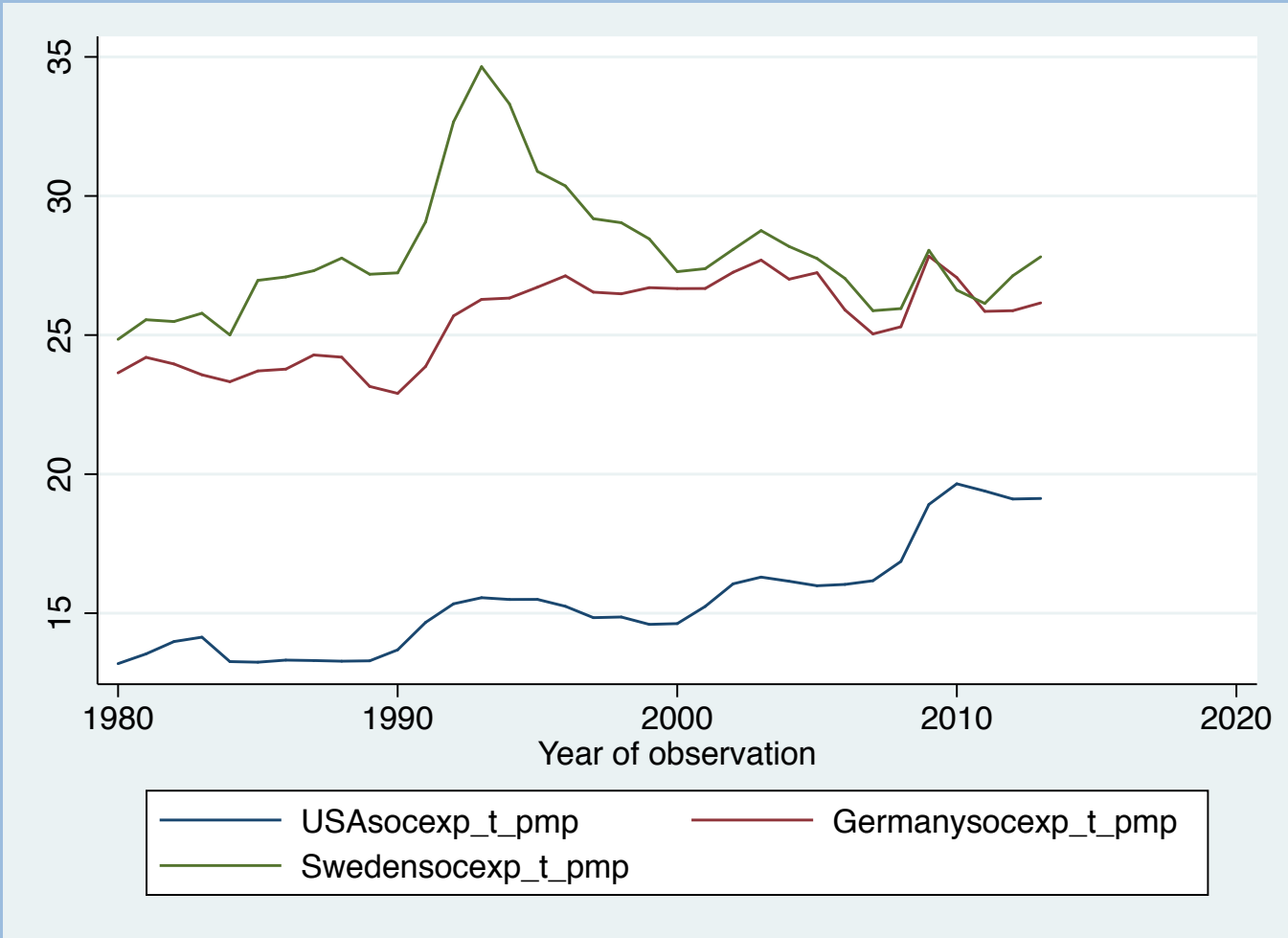
**Example:** Think of becoming old in the industrial age and nobody can care for you and you have no income -> social disintegration, avoiding industrial employment, social protest, deviant behaviour.

**Empirical evidence:** Most Western societies started to have a social security system some time after industrialization started.

# Historical roots of the Western welfare state: The functionalist view



# Historical roots of the Western welfare state: The functionalist view





# Historical roots of the welfare state

## View # 2: Interest politics in the autocratic age in Western societies:

The welfare state reflects legitimacy needs of autocratic rulers: Any political system needs legitimacy and autocratic rulers create legitimacy by output: government FOR the people (output legitimacy without input legitimacy).

**Example:** The German welfare state was created by an autocratic ruler, Fürst Otto von Bismarck. He fought the political representatives of the working class (social democratic parties and trade unions) by sticks and carrots: ‘stick’ was repression and prohibition of left parties; “carrot” was social security.

**Empirical evidence:** Jens Alber’s study on the emergence of the welfare state. Most Western welfare states started BEFORE the working class had strong political representatives.

# Historical roots of the welfare state

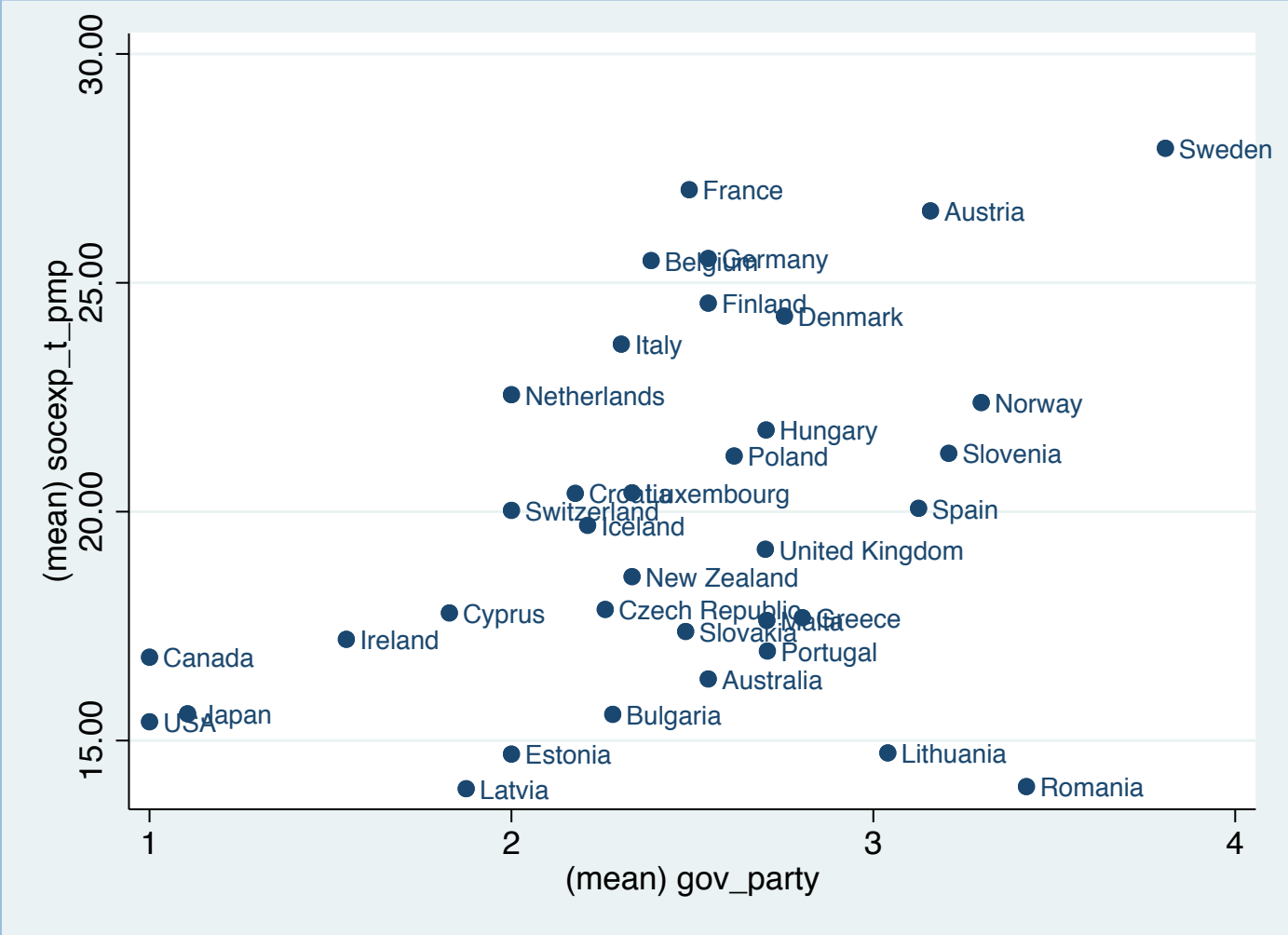
**View # 3: Interest politics in the democratic age in Western societies:** The welfare state reflects the power constellations of classes/political parties: If the left/the working class has more power than the bourgeois parties-> more welfare state (a case of input legitimacy: in elections citizens vote for parties that support the welfare state/output legitimacy: the government is caring for the people).

**Example:** In the Nordic countries the working class was not split by cultural/religious/regional conflicts-> strong Social Democracy; strong & unified trade union movement -> generous welfare state.

**Empirical evidence:** There is a correlation between political complexion of government/ trade unions strength and social spending. The work by Manfred G. Schmidt, Evelyne Huber & John Stephens and many others.

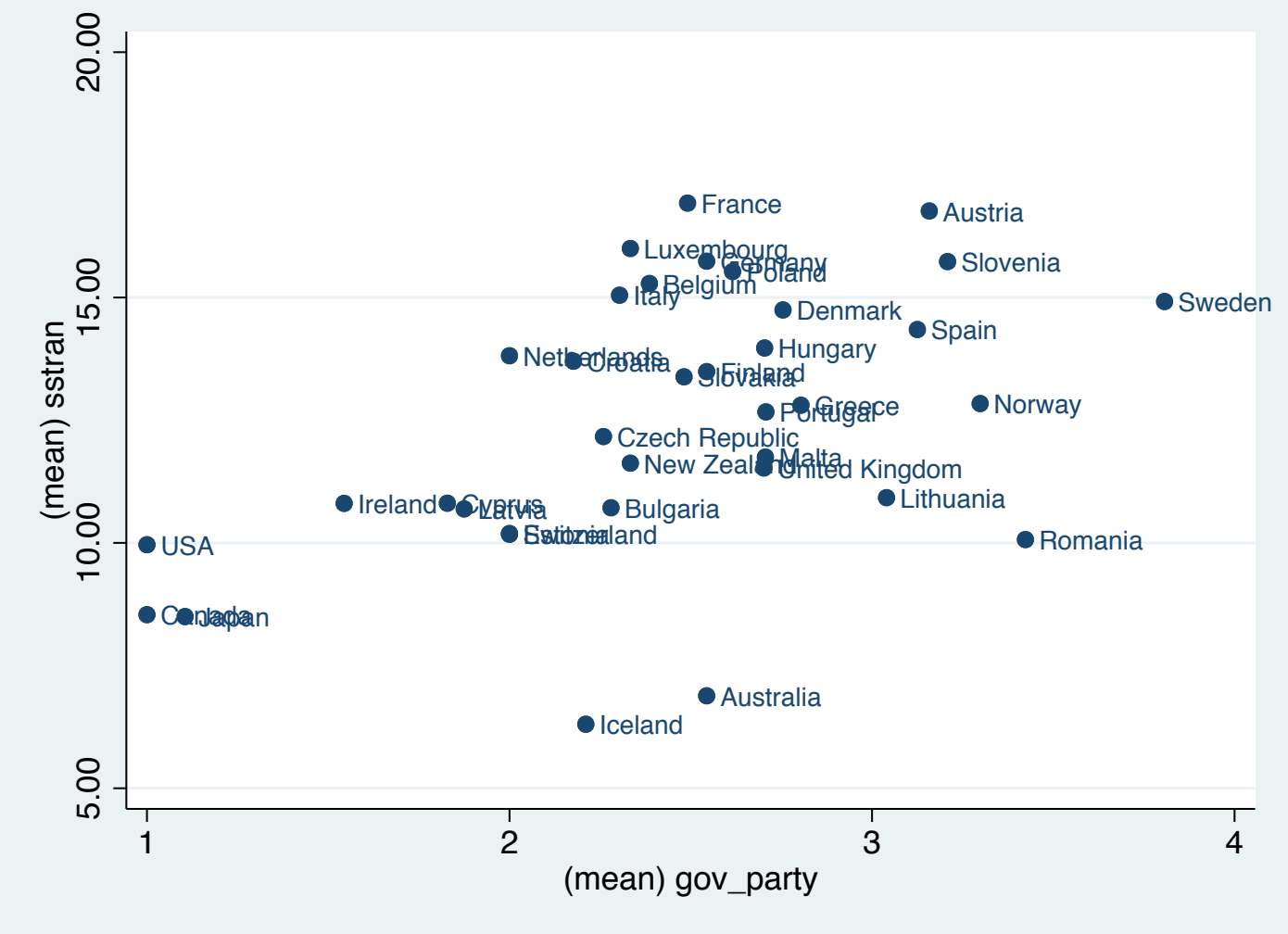
# Historical roots of the welfare state.

Illustration: Strength of left parties/social expenditures (1960-2015) (socexp),  $r=.41^{***}$



Source: <http://www.cpsds-data.org/index.php/data>

Historical roots of the welfare state. Illustration:  
Strength of left parties/social expenditures (1960-2016)  
(sstran),  $r=.48^{***}$



Source: <http://www.cps-data.org/index.php/data>

# Types of the welfare state: the liberal welfare state

- > The basic idea: Avoidance of poverty
- > Minimal security net
- > 'Slim' state
- > Do not hamper the market/no 'wrong' incentives
- > Financed by taxes (and it does not need much taxes to finance this type of welfare state)
- > Means tests
- > Anything above the poverty line: it's up to the citizens to look for private insurance
- > Political precondition: Strong pro-market parties, weak left
- > Examples: USA, United Kingdom, Ireland

# Types of the welfare state: the conservative welfare state

- > The basic idea: Social stratification is good and the family is the core of our society. If somebody encounters a risk of modern societies (e.g. unemployment, sickness, age) he (!) should not lose social status and his family should be protected.
- > Medium-to-generous welfare state targeted to the male breadwinner family/employment as the major criteria
- > Financed by social security contributions on wages
- > Markets are constrained if they endanger a stable, stratified and family-based society
- > Insurances that are financed proportionally by income and that pay benefits proportionally to contributions.
- > Political preconditions: Strong Catholic/Christian-Democratic Parties
- > Example: Germany

# Types of the welfare state: the social-democratic welfare state

- > The basic idea: Social security as citizen's rights. Universal welfare state not confined to the poor (liberal welfare state) nor to the working population; much more than poverty avoidance but also very equalizing (in contrast to conservative welfare state).
- > Generous welfare state for all citizens irrespective of gender, family position, employment history.
- > Not only cash benefits but also strong on social services.
- > Markets are constrained.
- > Financed by high taxes on income.
- > Political preconditions: a strong and unified left (party & trade union).
- > Examples: Sweden, Norway

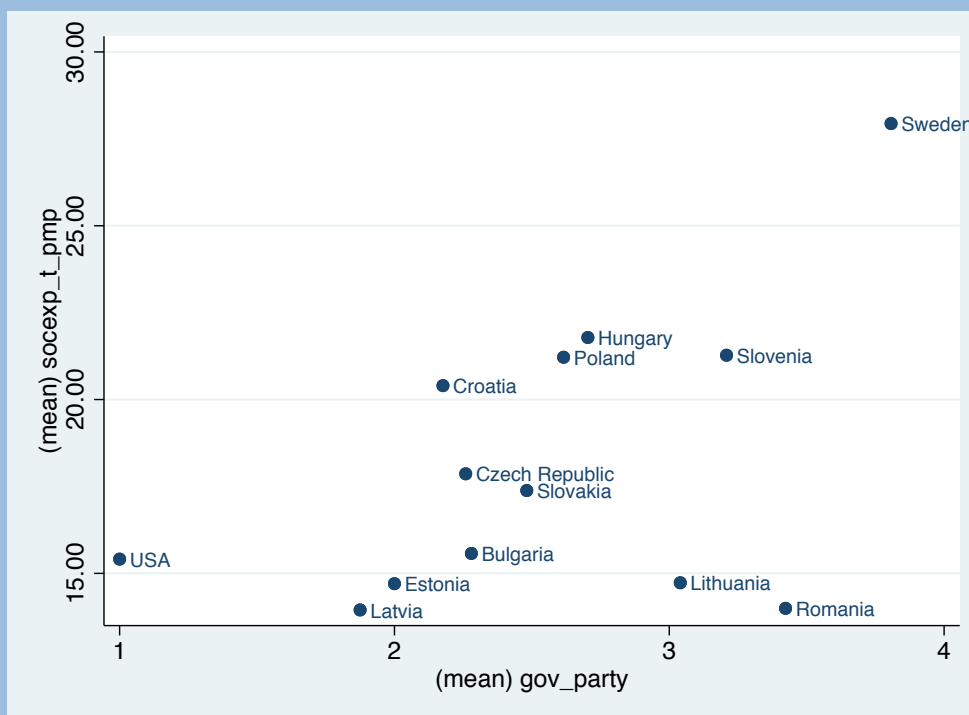
# Types of the welfare state: the Mediterranean welfare state

- > The basic idea: Conservative principles but applied mainly to state employees.
- > Targeted to pensions
- > A dual welfare state: Minimalist to employees in the private sector; generous to state employees
- > Financed by high taxes and social contributions
- > Very heavy on administration; relatively little cash benefits and hardly any social services.
- > Political preconditions: clientelist relationship party-electorates
- > Example: Italy



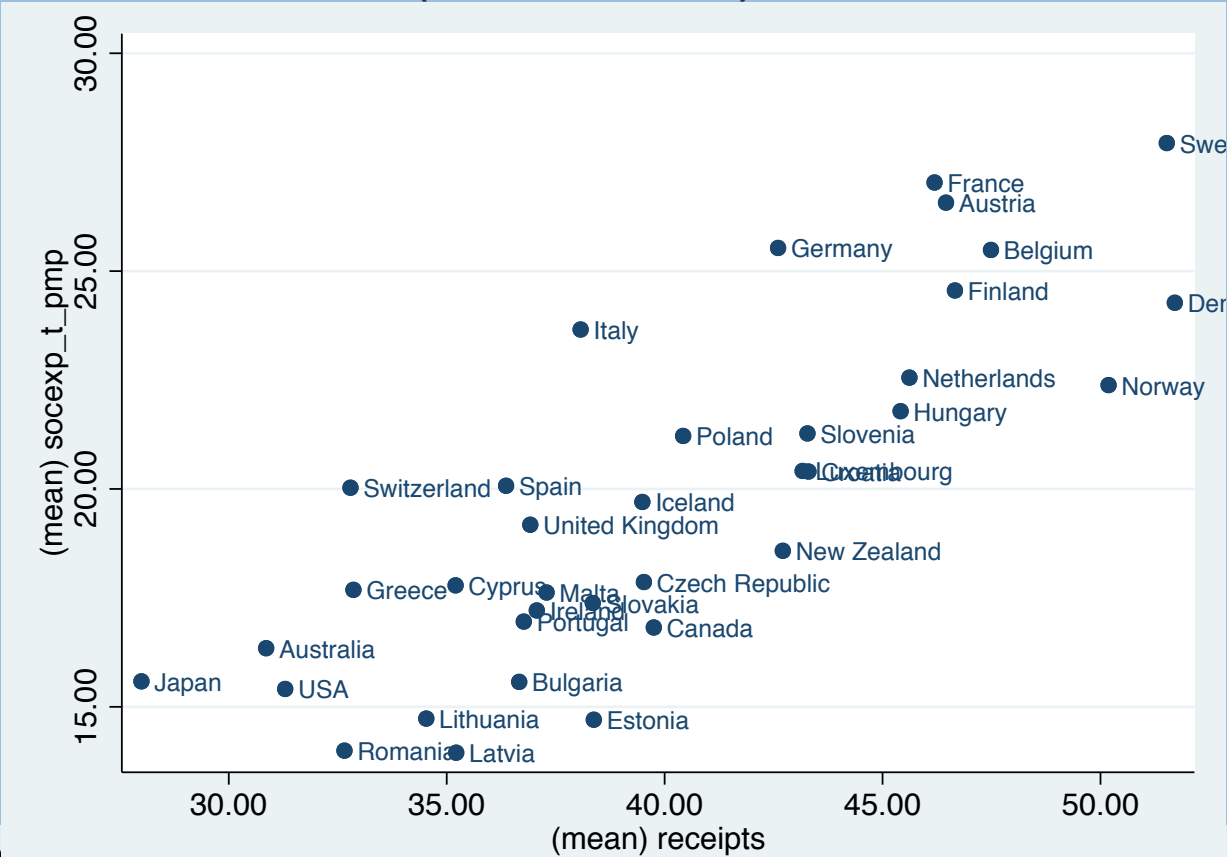
# Types of the welfare state: the Eastern European welfare state

- > Basic idea: legacy of the past (state socialism) plus political process after transformation to capitalism and democracy.
- > Vary diverse: Liberal Baltics versus more generous Czech, Slovak, Hungary, Poland, Slovenia, Croatia



# The welfare state as solver and generator of problems: problem generator

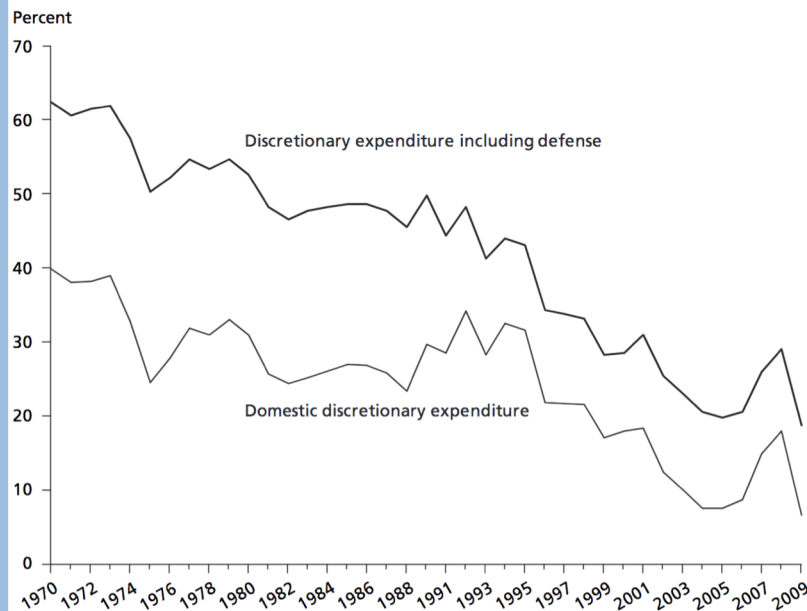
- Political dimension:  
Bureaucracy: Public sector size and size of the welfare state (1980-2015)



# The welfare state as solver and generator of problems: problem generator

- Political dimension:
  - Limitation of fiscal democracy

Figure 2 Fiscal Democracy Index, Germany, 1970–2009: Federal government revenue



Source: Bundesfinanzberichte 1975–2010; own calculations.

Wolfgang Streeck and Daniel Mertens  
**An Index of Fiscal Democracy**  
<http://www.mpifg.de/pu/workpapers/wp10-3.pdf>

But that is not only an effect of the welfare state!

# The welfare state as solver and generator of problems: problem generator

## — Political dimension:

A trap for democratic politicians: The welfare state is very popular, any attempt of cutting back welfare state expenditure will meet with strong resistance.

If politicians want to secure re-election, they have to promise not to cut the welfare state (in particular: pensions). On the other hand, welfare state expansion needs to be confined.

# The welfare state as solver and generator of problems: problem generator

## Societal dimension:

‘Colonization’ of private worlds: the state is in our most private lives (Jürgen Habermas)

(but this applies to any aspect of modern society – and unemployed are very happy if the state is in their life and spends unemployment benefits)

Dissolution of networks of self-help: the state replaces voluntary organizations, family support etc.

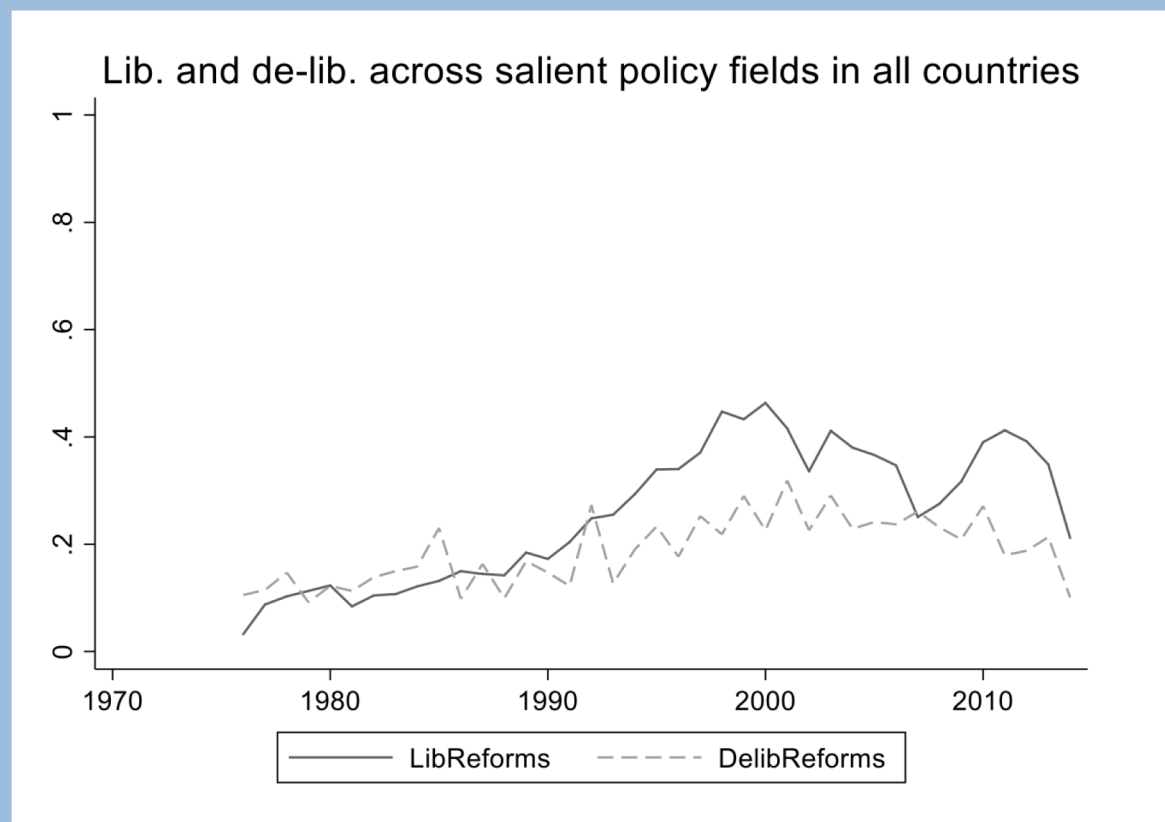
(Very weak empirical evidence)

Cost of the welfare state (debts!) are externalized (e.g. to future generations).

# The welfare state as solver and generator of problems: problem generator

Economic dimension:

A constraint on competitiveness in globalized markets: The welfare state under attack of liberalization (race-to-the-bottom discussion)

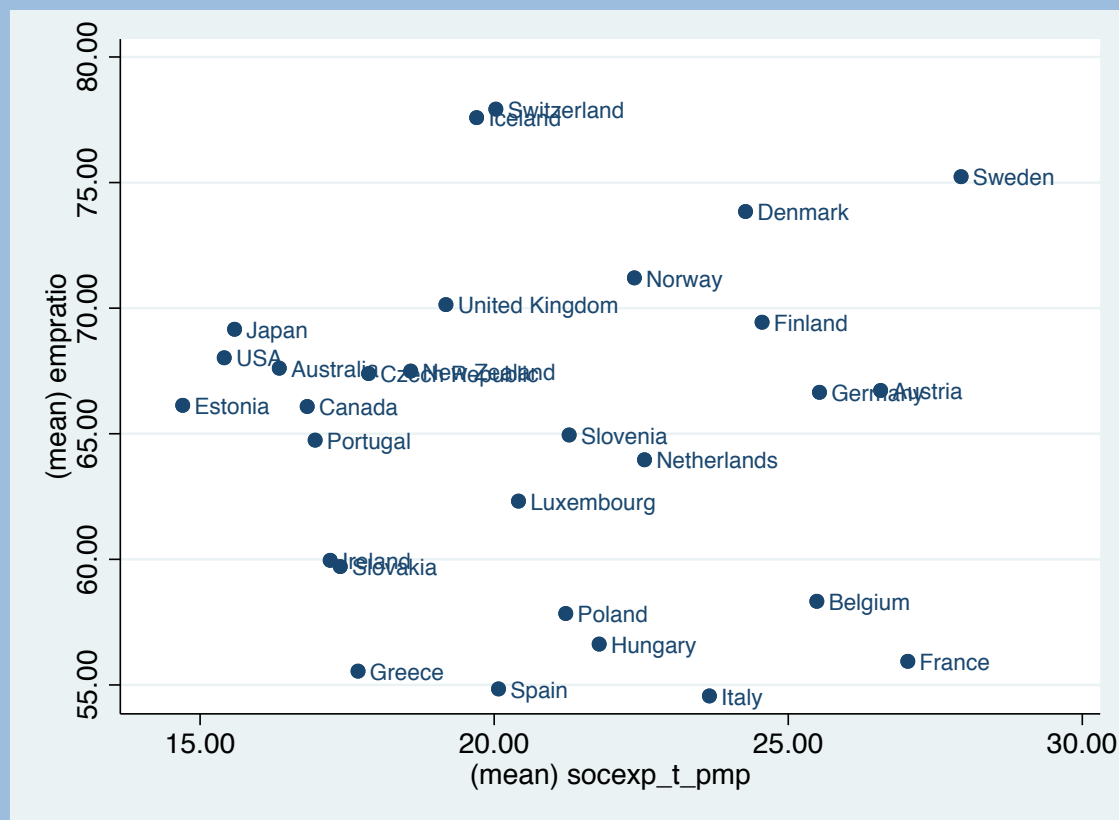


Source: Armingeon et al.  
2018: Liberalization data  
base

# The welfare state as solver and generator of problems: problem generator

Economic dimension: Welfare state impedes employment. In theory 'yes', but not in reality.

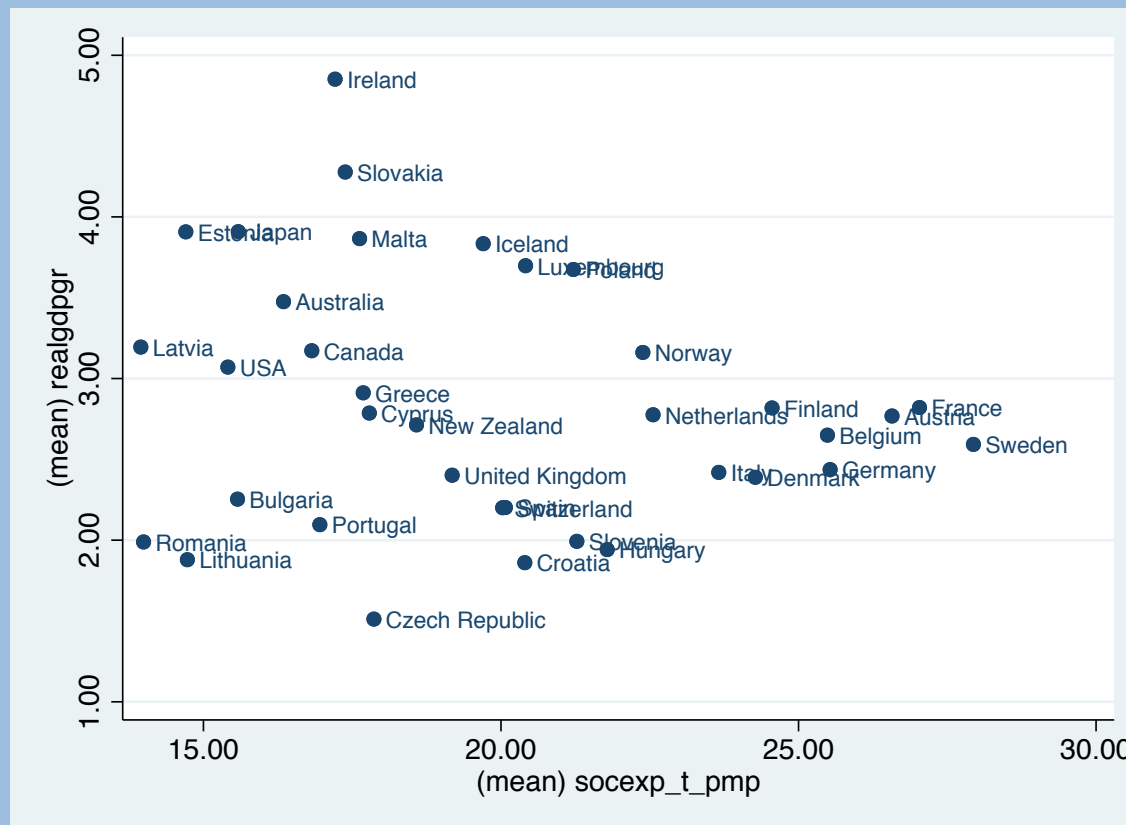
(employment ration and social security expenditure, 1980-2015,  $r=-.02$ , ns)



# The welfare state as solver and generator of problems: problem generator

Economic dimension: Welfare state impedes economic growth by costs and wrong incentives . In theory 'yes', but not in reality.

(real GDP growth and social security expenditure, 1980-2015,  $r=-.2$ , ns)





# The welfare state as solver and generator of problems: problem solver

## > Political dimension:

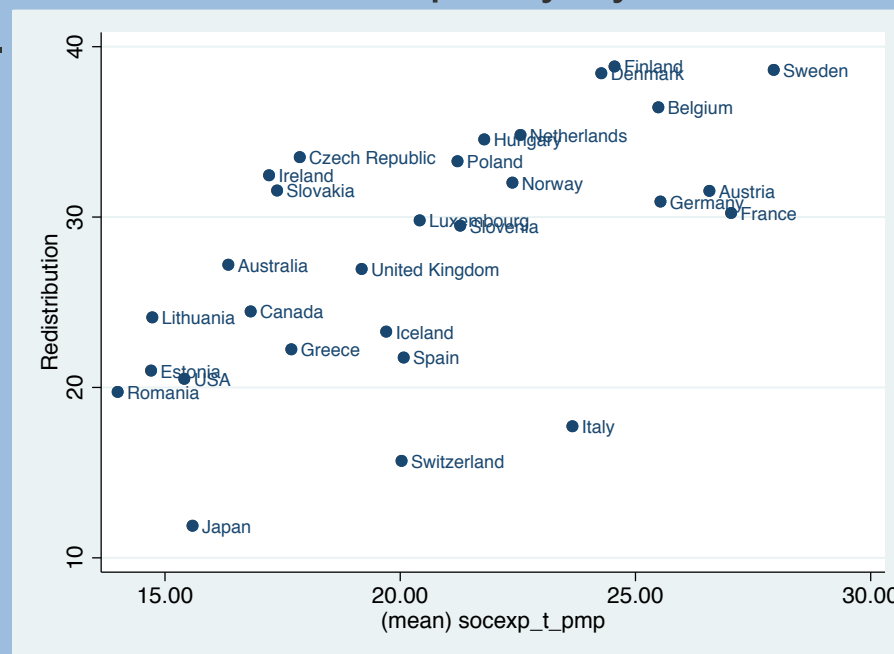
The welfare state contributes to a stable democracy by

- isolation of the political system from conflicts in the economic system –the negative example of the German way to dictatorship in the 1930s.
- Limiting social and income inequality – democracies require comparable living conditions of citizens and comparable political power of social groups. There is no stable Western democracy without a welfare state!

# The welfare state as solver and generator of problems: problem solver

## > Societal dimension

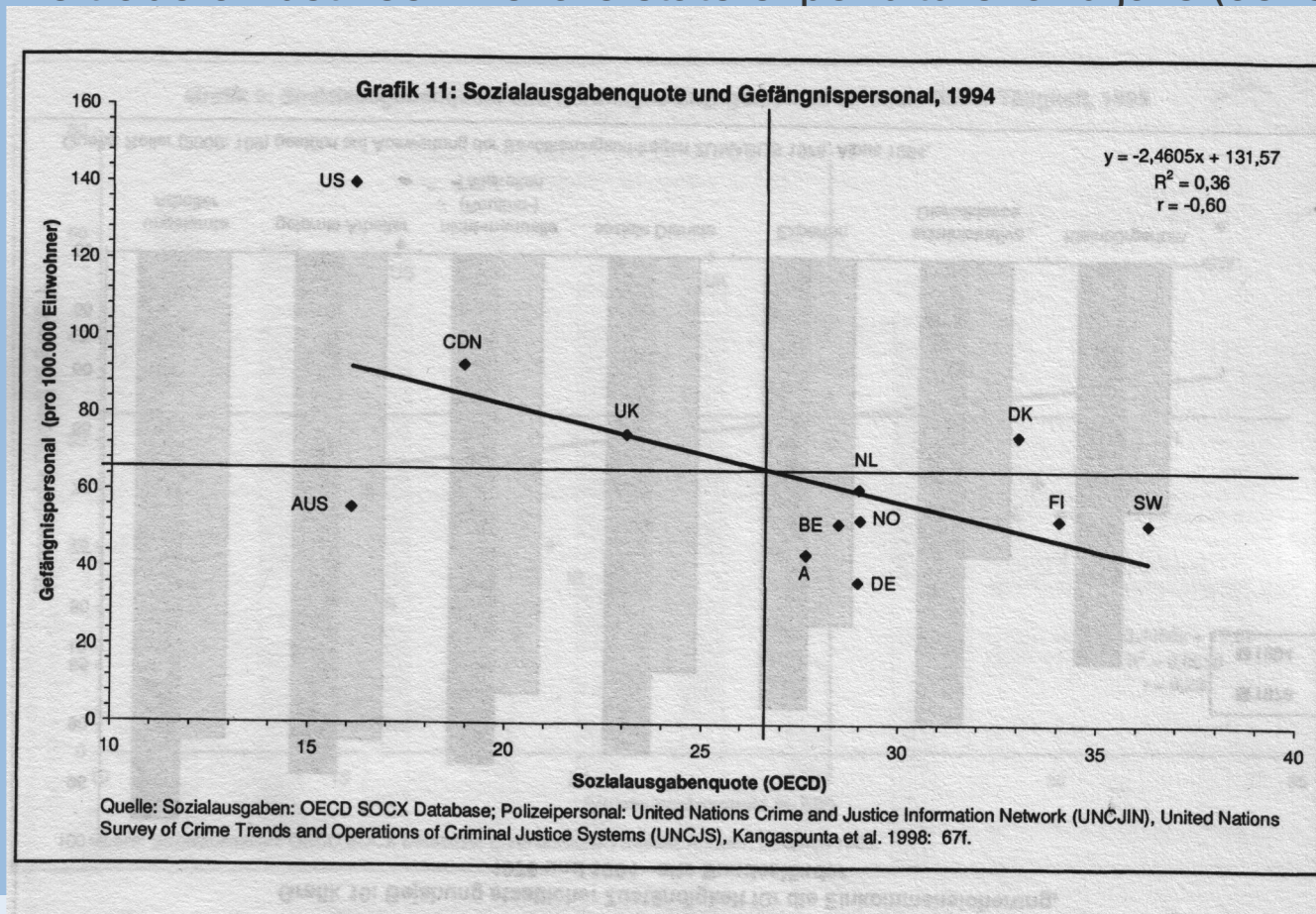
- The welfare state reduces the level of social conflicts in modern society
- The welfare state reduces income inequality and poverty: Strong welfare states reduce market inequality by 40%; weak welfare states by 20%.



# The welfare state as solver and generator of problems: problem solver

## > Societal dimension

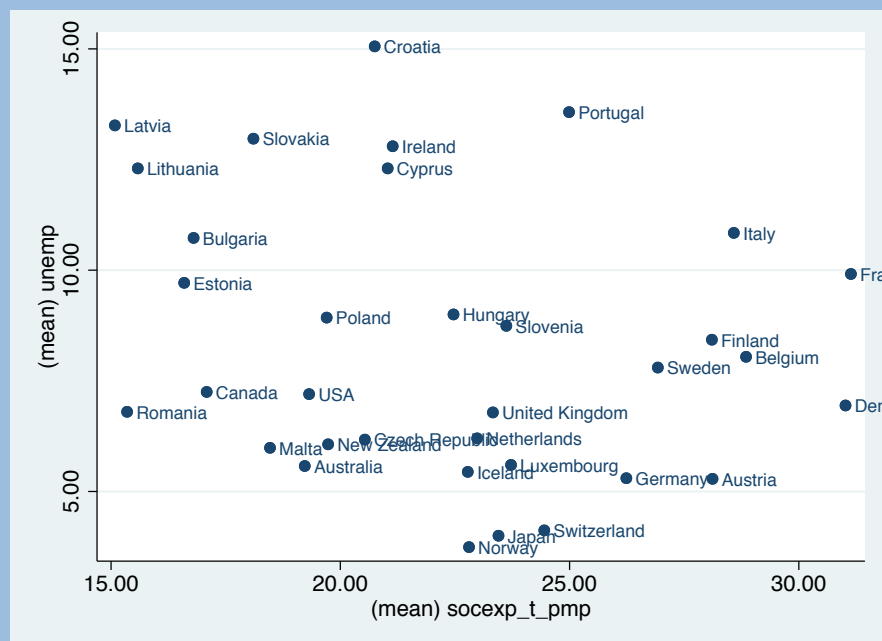
— The trade off between welfare state expenditure and jails (Jens Alber)



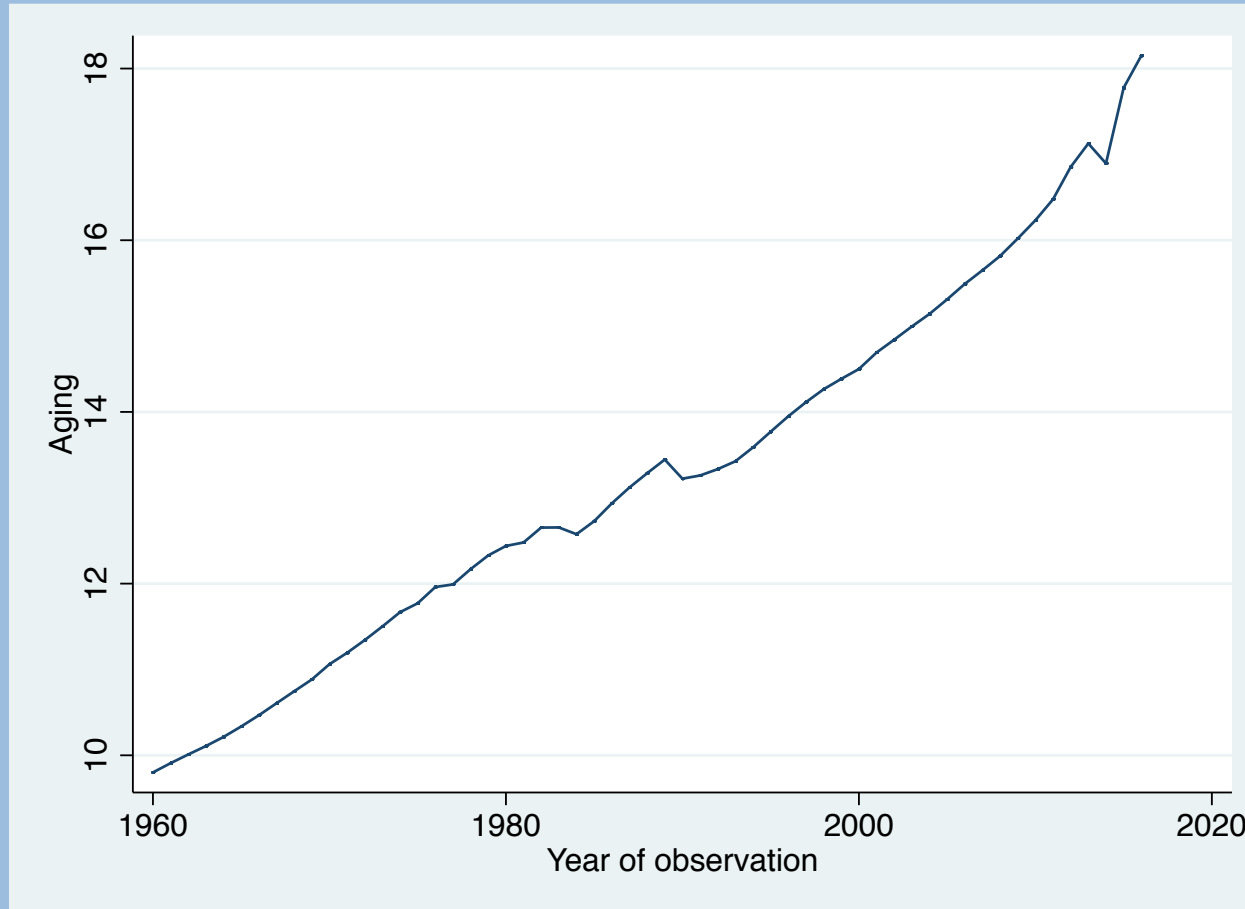
# The welfare state as solver and generator of problems: problem solver

## > Economic dimension

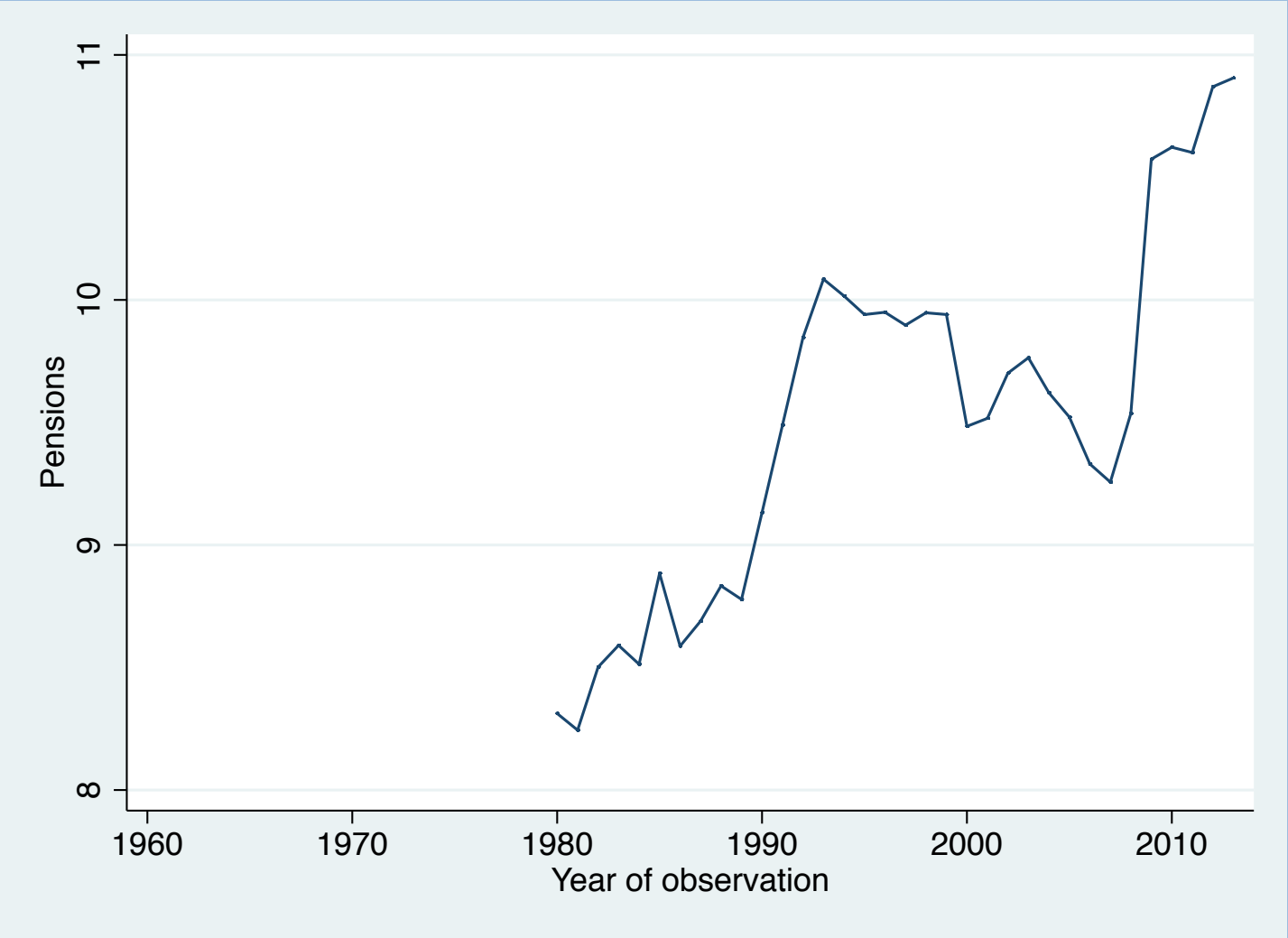
- Welfare states are a precondition for investment in occupational training (Hall/Soskice Varieties of Capitalism) and for maintaining human capital
- Welfare states are better in weathering crises (automatic stabilizers) –at least they are not worse in dealing with economic crises! (Graph: 2010-2015, without Greece and Spain).



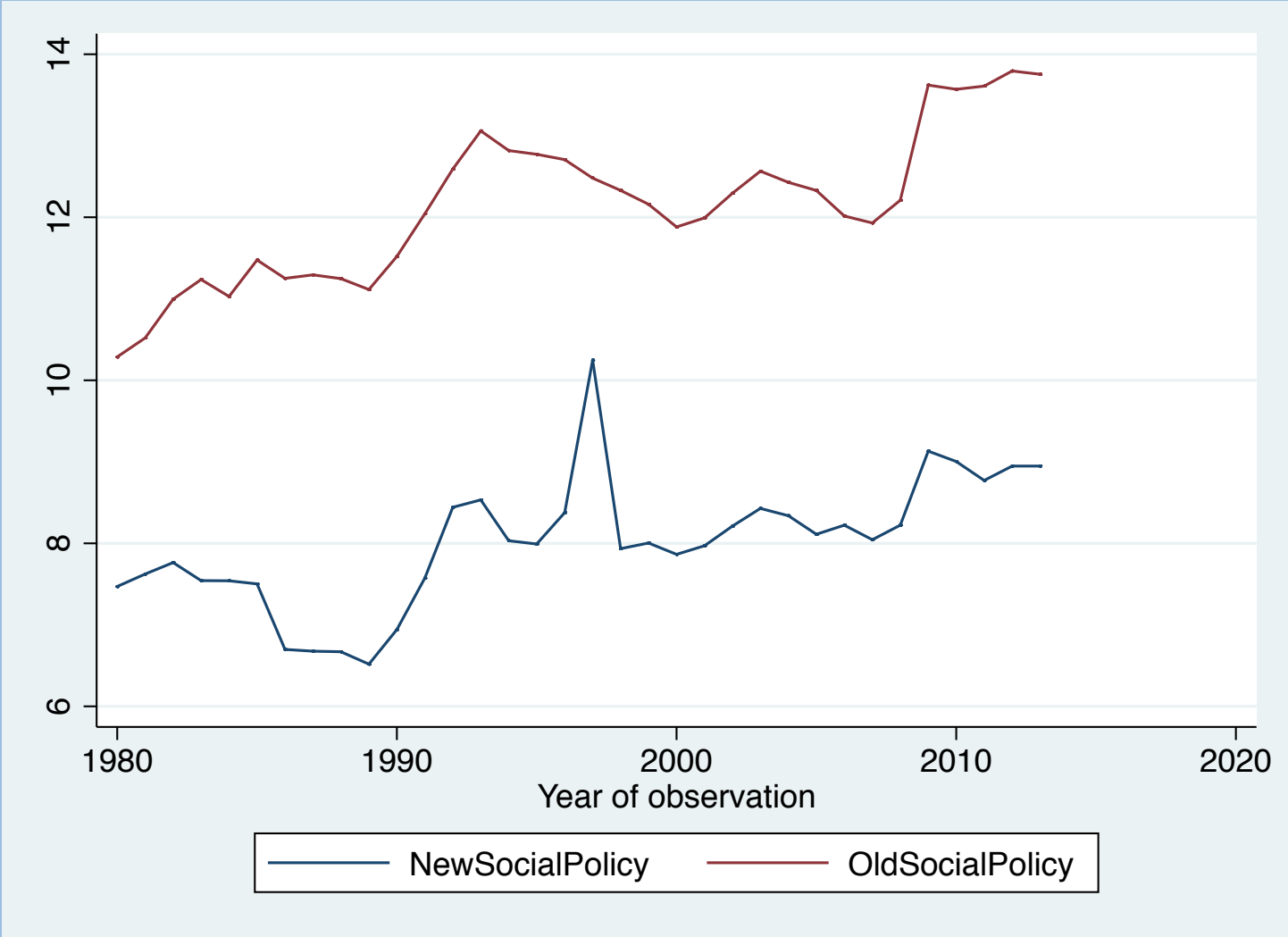
# Two main challenges of the welfare state: demographic aging and modernization of the welfare state: Aging (% 65+ in OECD/EU)



**Two main challenges of the welfare state: demographic aging and modernization of the welfare state: Spending (% GDP) for pensions and incapacity-related benefits, 2080-2013, only ‘old’ Western countries**



Two main challenges of the welfare state: demographic aging and modernization of the welfare state: Spending (% GDP) for old and new social policies, only 'old' Western nations, 1980-2013



# Conclusion

- > Definition of the welfare state
- > Historical roots of the welfare state: A strong functionalist argument and some evidence for political factors.
- > Types of the welfare state: Five different approaches to social problems.
- > The welfare state as solver and generator of problems: In a balanced way, probably (and depending on your normative views) the balance sheet of the welfare state is positive.
- > Two main challenges of the welfare state: demographic aging and modernization of the welfare state: Two unsolved problems.